Bipartisan Student Loan Certainty Act

All Students Benefit

The majority — 55 percent — of new loan volume issued this year will be Unsubsidized Stafford loans, while 26 percent will be Subsidized Stafford loans and 18 percent will be PLUS loans. This proposal provides a long-term solution for students, parents, and taxpayers through a comprehensive interest rate fix for **ALL** borrowers. *Under our plan, every new loan will see an interest rate decrease in 2013.*

Simplicity and Consistency

- <u>Undergraduate students will have one low interest rate.</u>

This proposal sets the interest rates on all new undergraduate Subsidized and Unsubsidized Federal Stafford loans to the most recent U.S. Treasury 10-year borrowing rate, plus 1.85% to offset the costs associated with defaults, collections, deferments, forgiveness, and delinquencies. The interest rate remains fixed for the life of each loan, making it much easier for students to understand and manage their debt.

For low-income borrowers, the government will continue to pay the interest on Subsidized Stafford loans while the student is in school. That said, we must remember that nearly 80% of students with Subsidized loans also have Unsubsidized loans. Our proposal cuts the interest rate for both of these loans while drastically cutting the rate for the millions of middle-class families that depend on Unsubsidized loans and PLUS loans exclusively to attend college.

Strong Borrower Protections

- <u>We keep in place the interest rate cap of 8.25% through the Consolidation program.</u>

This proposal strengthens the Consolidation Loan program, which establishes an interest rate cap on 8.25% for student loans. Under current law, a student can consolidate all of his/her loans after graduation into a Direct Consolidation loan, where the interest rate is the lower of a) the weighted average of the interest rates on the student's loans or b) 8.25%. Even if interest rates were to increase drastically in the future, the consolidation cap protects students—they can always consolidate at 8.25%.

- <u>We keep in place the payment cap through the Income Based Repayment (IBR) Plan.</u>

IBR Plans give students the option to significantly reduce how much they owe each month by setting repayments to the student's income. These plans have been available to students since July 2009, and have created an effective cap on monthly repayments that is always fair and affordable.

Urgency to Implement a Market Based Approach

- <u>Allows students to benefit from low interest rate environments.</u>

This proposal ties the interest rate on Stafford and PLUS student loans to yields on 10-year Treasury notes, allowing students to take advantage of low-cost borrowing when everyone else in the economy is borrowing cheaply. Using long-term interest rates makes sense for student loans, which are always long-term by nature. This formula protects borrowers from higher volatility seen in short-term rates.

- <u>Market interest rates won't stay this low forever.</u>

By implementing a permanent fix for student loan interest rates today, we can take advantage of the current, historically low Treasury rates to enact a plan that keeps interest rates low for students this year and into the future. If we wait—even just one year—market interest rates will be higher, and crafting a plan to keep rates at our low levels would a) require new offsets (which decreases the chance of ***actually*** being signed into law) or b) have to be replaced with higher, more burdensome rates for students.

Please contact Kimberly Waller (x82402 or Kimberly_waller@manchin.senate.gov) if you have any questions.